Michigan Association of Retired School Personnel
Protecting your future

President, Marie L. Wilkerson
Executive Director, Bonnie J. Carpenter
PO Box 23214 • Lansing, MI 48909-3214

Office Hours:
7:30 a.m. - 11:30 a.m.
12:00 noon - 4:00 p.m.

Telephone: 517.337.1757 • Fax: 517.337.8560 • E-mail: staff-marsp@marsp.org • Home Page: www.marsp.org

Presentation

to the

Retiree Health Care Reforms Committee

Michigan House of Representatives

November 1, 2007

Donald E. Miller, Past President
Bonnie J. Carpenter, Executive Director
Norvel A. (Budd) Hansen, Legislative Committee member,
and former MPSERS Executive Director

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On behalf of the Michigan Association of Retired School Personnel (MARSP), we want to **thank you** Representative Meadows and committee members for this opportunity to provide valuable background information on the school retirees' health care plan. MARSP represents ALL retirees who are receiving a pension from the Michigan Public School Employees' Retirement System (MPSERS) – K-12 and community college retirees.

MPSERS members are ALL employees of the K-12 system and all community colleges in Michigan. These systems include all support staff, full time and part-time, such as secretaries, cooks, custodians, bus drivers, and all certified staff. It is NOT just a TEACHERS' system.

At your very first meeting you heard the Michigan Public School Employees' Retirement System (MPSERS) Director Phil Stoddard provide a very **accurate and detailed description** of the school retirees' health care plan. You heard him describe how the MPSERS Board has very carefully **watched plan costs and made changes annually** to keep the plan affordable for both the schools and the retirees. He reported that process has kept the schools' contribution to MPSERS for the retirees' health care plan at **6.55% of active payroll for the past three (3) years** – the 2005-06, 2006-07 and 2007-08 school years.

We are aware that if health care costs are not kept in control, the cost to the employer – in our case the school districts – will rise rapidly, to an unaffordable level in the next 10 years. Therefore, we would like to offer some additional information today that perhaps Mr. Stoddard could not, given the structure of his report to you.

Although this is the **retiree health care** reforms committee, we believe it is **not possible to discuss health care without an understanding of the pension payment** that makes one eligible for that coverage. Therefore we are supplying you with a brief **"History of the Michigan Public School Employees' Retirement System"** from its beginning in 1895 through 2007. This is the **blue handout** for your reading later.

We are also providing on **white paper** a copy of the report, ***"Michigan Public School Employees Retirement System (PSERS) Members and Benefit Recipients by County as of June 2007."*** This reports:

- ✓ the number of active employees, and
  the wages paid for the past year;
- ✓ the number of retired benefit recipients, and
  the total pension benefits paid last year; and
- ✓ the **average pension benefit** paid last year in that county.

Briefly, this indicates, as one might expect, that the majority of the **highest average annual pensions over $20,000** are to be found in the Metropolitan Detroit area and southeastern Michigan. The rural and northern areas often have more retirees than current employees residing in the county, and the **lowest average annual pension is $12,279** in Oscoda County – less than it is in the more metropolitan areas. If you add the total wages and pensions in your county, you may begin to estimate the **economic impact of the "educational dollar"** on your area and you may be able to determine the percentage of your constituents who are related to education.

A **third handout** on MARSP **letterhead**, **"Points for Consideration Regarding Retiree Health Care or Pension Reform,"** is the adopted position of our organization. We would like to expand briefly on the various positions.

Graded premium support

- We are aware that the legislature has already taken action on this item in the deliberations surrounding the budget process on October 1, 2007.
- We are supportive of that action and commend the legislature for taking that bold step.
- MARSP has supported the graded premium insurance subsidy concept, since the initial introduction several years ago, **as a method of preserving the benefit for future retirees**.

We understand that the new law effective for new hires on July 1, 2008, provides a 3% subsidy for each of the first ten (10) years of employment (the vesting period), and a 4% subsidy for each year thereafter, to a maximum of 90% total subsidy. The new law also requires a minimum of 10 years of service credit to qualify for the health insurance benefit – a move which we support – and attainment of age 60 to participate in the insurance benefit.

However, we have a concern for the cooks, bus drivers, and others whose employment cannot meet the 1,020 hour annual requirement. We believe that those workers – **who meet the needs of the school system** – should receive credit toward the health insurance benefit for each year served.

MPSERS Master Health Care Plan

A. The actions of MPSERS/ORS in cost containment measures have maintained the cost of retiree health care to school unit employers at 6.55% for each of the past three years. The **fourth handout** you have on [illegible] paper is a **History of the MPSERS Master Health Care Plan since its implementation in 1975 (Appendix B)**. You will see when you read that later, that the MPSERS Board has been quite aggressive in keeping the plan affordable over the years for **BOTH** the schools and the retirees.

As a result of some of the more recent actions of the MPSERS Board, following is what our plan looks like today.

1. Use of The Medicare Modernization Act of 2003 stipend to offset costs of the **Part D** pharmaceutical program – approximately $40 million per year.
2. Implementation of the **Medicare Advantage** program on January 1, 2007, for Medicare-eligible retirees – approximately $60 million per year in savings.
3. **Each retiree pays** $93.50 per month for the health insurance benefit; that is $1,122 per year in 2007. That amount increases every January to the Medicare Part B equivalent. In 2008 it will be $96.40 per month for a total of $1,157 annually; which will be **9.4% of the lowest average annual pension** paid to a retiree.
4. The **medical outpatient co-pay** is 10% on all services.
5. The **annual deductible** is $250 per individual, or $500 for the family.
6. Medical **co-payments** are capped at $500 per individual, or $750 for the family.
7. The MPSERS Master Health Care Plan includes **only 3 preventative services**:
   a. Mammograms every 12 months
   b. Pap tests every 12 months
   c. PSA screening for prostate cancer every 12 months
   d. We believe that if more preventative services were offered, the health of our members would improve and health care costs would be lowered. **We believe that an annual physical should be mandated and paid for by the plan.**
8. **Prescription co-payments** are:
   a. 20%, with a minimum of $7, to a maximum of $32, at a retail pharmacy for three one-month supplies of a **new** formulary prescription;
   b. A minimum of $17.50, and a maximum of $80.00, at mail order for one three-month supply of a formulary prescription;
   c. An additional cost difference on maintenance drugs on and after the 4th fill if not purchased at the most cost-effective venue;
   d. An $800.00 maximum annual co-pay for prescriptions on the formulary;
   e. A 40% out-of-pocket cost for non-formulary drugs not counted toward the $800.00 maximum.

The deductible and prescription co-pays add **another 8.3% in out-of-pocket expenses** to the lowest average annual pension paid to a retiree. **There will also be additional out-of-pocket expenses** for the 10% outpatient co-pays which each retiree must pay in addition to the fixed amounts. **That brings the annual out-of-pocket expenses for a retiree with the lowest average annual pension up to a minimum of 17.7% of the pension amount. An average annual pension of $12,279 minus 17.7% leaves approximately $10,040 annually to pay living expenses.**

MARSP has a major concern regarding the fact that **we must use an out-of-state mail order pharmacy to obtain the most affordable and cost-effective pricing for long-term use of maintenance drugs**. The majority of MPSERS retirees use the mail order pharmacy to keep the schools' cost lower, and this equates to **hundreds of thousands of dollars leaving Michigan every year**.

We believe the legislature should act to allow a mail order drug dispensing facility in Michigan, similar to the MEDCO facility which we are forced to use in other states, to keep prescription prices affordable for the schools and our retirees.

B. The Master Health Care Plan also has an **HMO option, since 1997**. Although it started with five HMOs in the Lower Peninsula, as of today there are only two still in the choice selection: **HAP** in Southeast Michigan; and **Priority Health** in most of the rest of the Lower Peninsula. **HMOs are not at all available in the Upper Peninsula.**

Upon retirement, a public school employee can choose whether he or she desires to enroll in the Blue Cross Blue Shield PPO plan (Medicare Advantage if Medicare-eliglble) or in the HMO available in his or her area. The premiums are the same. MPSERS deducts the premium from the pension check and sends it to the proper insurance carrier for that member. We do not have the details on those plans, such as copays and deductibles, because HMOs run their own plans. What we do know is that our MARSP members who use them are very satisfied with them.

C. MARSP has great concern for school districts abusing the system through the use of retirees returning to the same position from which they just retired. There is even greater concern for third party contracting in the use of retirees in the school districts. We believe that employers should contribute to the MPSERS health care fund the amount of the **State's premium subsidy** while using retirees; which would be **$6,666.84** per year at the 2007 premium rates (**green** handout).

Pre-funded health care trust fund

We believe that **pre-funding of health benefits should be reinstated**. This was a provision added under Governor James Blanchard's Administration, but was slowly eliminated and then changed by statute in the early 1990s. We understand that the more recent term used is "**advance funding**."

A. We believe in constitutionally-protected advance funding for health benefits with active members contributing a portion of the actuarial cost, **IF** contributions can be considered IRS Tax Exempt, placed in individual accounts, and refundable if the employee is not eligible for pension/health benefits. This should be applied to "new hires" after a given date as General Motors recently proposed. It might also be applied to those not yet vested although this would require an Attorney General's Opinion.

B. We believe that employers should contribute to this fund in at least the same proportion as the active members.

C. We believe that the fund must be protected from State government use for anything other than pre-funding of health benefits, and that the investment earnings on the fund must have the same protection. **Above average and exceptional investment earnings help the schools by keeping the contribution rate at an affordable level.**

These are some health care issues which we believe should be addressed. However, we believe that they should be tied to the pension reforms we have also cited in our position paper.

Other items not addressed in our handouts

We are supportive of the change the legislature made on October 1 to increase the Member Investment Plan (MIP) contribution on the earned compensation over $15,000.00, for new hires after July 1, 2008. We are not sure, however, that it needed to be increased to that level.

Thank you again for the opportunity to present information on behalf of the Michigan Association of Retired School Personnel (MARSP). We are ready and willing to provide any additional information and to assist the committee in its deliberations, and in communicating its views and recommendations to the membership.

We are most willing to answer any questions which you may have now.

MARSP Board of Directors
Presenter: **Donald E. Miller**, Past President
Others present: **Bonnie J. Carpenter**, Executive Director
Norvel A. (Budd) Hansen, Legislative Committee Member, and former MPSERS Executive Director